THE NATIONALIZATION OF CAPITAL

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I The Growth of International Investments

In the half century preceding the war there was a decided trend towards international finance. Capital flowed from some of the old countries notably England, Germany, France, Switzerland, Belgium or Holland into the newer countries. It was not a mere export of capital as it is commonly called, by which capital—whatever meaning we may give to that somewhat multicolored term—migrated from one country to the other. The characteristic feature of the movement was that though the capital itself emigrated its owners remained at home, drawing interest on their foreign investments and pocketing profits from their enterprises abroad—wherever such profits were made. In other words credits were given by the citizens of one nation to those of another nation on an ever increasing scale.

Some of these credits took the form of short-term advances repayable within a few months. They were used mostly for the movement of goods from one country to another. As such movements recurred periodically the advances had to be renewed over and over again. They were a kind of international revolving credit.

The older countries, England and Germany for example, were in the habit of paying cash for their imports of raw material. Their citizens no doubt used instruments of credit in their individual transactions. They paid the producers of copper and cotton by drafts on their bank. By selling these drafts immediately the producer got cash. Though the purchaser himself took up the draft only after it fell due, the banks had advanced the money for discounting it abroad, either through branch banks or through foreign correspondents. Broadly speaking imports were paid in cash, while through the same system of bank accommodation abroad exports were sold on credit, of three to twelve months' duration. A considerable share of the capital of England, and to some degree of Germany, was thus engaged in short-term credits to foreign nations.

A much larger share was permanently invested abroad, bearing interest or bringing dividends. The cost of transportation, the cheapness of raw material, the building up of protective tariffs, or the requirements of some patent law, forced manufacturers to start branches abroad.

The German chemical industry, for example, had branches established in Russia, because import duties on their products were very high. They started some in England on account of the neighborhood of the greatest consumers, the British textile industry. A German candy making concern of international fame started branches in some countries, because the tariff made imports from Germany impossible. They went to England because the cheapness of sugar and of raw materials enabled them to hold their own on the British market, and to avoid hostile tariffs in foreign countries.

Direct industrial investment was but one form of the international advance of capital. Far greater were the sums of money loaned by one nation to another by means of issuing stocks, shares and bonds, through the different stock exchanges. Huge sums of foreign government loans were subscribed in Europe. They had to compete with bonds and shares of corporations which raised their capital in markets where the rate of interest was low. North and South America railroad corporations; South African gold mines; Near and Far Eastern enterprises vied with each other in competition for the foreign market. Germany participated largely in these international credit operations. Her foreign investments before the war have been variously calculated at seven to eight billion dollars. It has been estimated that her investments in hostile countries alone were nearly five hundred million dollars. During the year preceding the war, the total amount of issues offered to subscribers upon the German exchanges reached six hundred million dollars of which about sixty-three million dollars were for foreign ventures.[1]

II INTRICACIES OF INTERNATIONAL FINANCE

International financial (credit) relations were not restricted to loan transactions between groups of advanced countries and of new

[1] In many cases the amount of stock issued is offered at the same time on several stock exchanges. It cannot be estimated how many of the subscribers are Germans. Moreover, it is not known to what amount German capitalists subscribe to loans in foreign stock exchanges.

countries. Countries were not coupled together in pairs of creditors and debtors: Germany, for example, had no monopoly of lending money to Turkey. She shared in these transactions with France, England and other countries. Finance was not merely what might be called bi-national; of late it had really become international. The creditor countries, England, Germany, France and others who loaned money to weaker states were tangled up among themselves as creditors and debtors. Their financial relations had become so close and intimate, they depended on each other to such a degree, that many a competent observer denied the possibility of a big war on account of that financial interrelation. A kind of international clearing house had grown up, and a kind of international stock exchange had been developed. London had become the center of international business.

England's geographical position made her the half-way house of central and eastern Europe for trade over sea. It made her safe apparently from foreign invasion. Her history and her institutions guaranteed the safety of private property from injudicious government action. She was the heart of the British Empire which produced a large percentage of the world's raw materials. She had imported huge quantities of them while the rest of the world was yet satisfied to live on its own produce. She had evolved an excellent trading organization. Her banking system was peculiarly well adapted for the granting of short loans essential to trade. She kept a much larger share of her capital for that purpose than any other nation. Quite naturally she became the market, the clearing house and the banker of her own colonial empire. Hers was the greatest merchant marine and she did much of the carrying for other nations. She controlled the insurance systems of many countries. She had invested huge sums of money abroad, the interest on which had to be remitted. She owned the greater part of the world's gold-producing areas, from which a stream of gold converged in London. She received freightage, bank commissions and insurance premiums from all the world. Her colonial empire offered far greater facilities in the near future than any other place in the world: she attracted men from all countries to her colonies. And to London she called the financial genius of many lands, especially from Germany, by wise hospitality and the offer of splendid chances.

England as the World Center

A triple result followed. England became the staple place for many imports. With a population of but forty-six millions, her imports were 3.7 billion dollars; while those of Germany, with a population of sixty-seven million were 2.7 billion dollars. In the four years preceding the war, England's reëxports of foreign goods were well over five hundred million dollars. England enjoyed a better market organization than her competitors. Dealing in futures, for example, was possible on a big scale. Though the consumption of copper in Germany was 260,000 tons, and the consumption in England only 140,000 tons, the turnover at the London Metal Exchange was 524,000 tons, whilst the turnover in Germany was 360,000 tons.

The result of this was that international payments were made via London. International accounts were cleared in London. The exporters in South America and North America, as well as in the British colonies, were paid in bills accepted directly or indirectly by London banks. There was an enormous demand for those bills, and the pound sterling was the currency of the world. It has often been said that a draft on London was as good as gold. Up to the outbreak of the war this was true, and all the world used it for payments. For limited areas only, the mark, the franc and the dollar were international currency.

Germany's Relations with London

Germany settled a good part of her foreign trade payments via London. She imported large quantities of raw materials from British colonies. She exported goods to them. It was but natural to settle these bills via London. Non-British payments were settled in a similar way. The German banks erected branches in London or kept an account with London banks. They deposited with them a large amount of Germany's floating capital, for English banks would never accept drafts for German accounts without being sufficiently secured and compensated. What held good of Germany held good of other countries, too, to a limited degree. They all kept balances in London. It has been estimated by the Frankfurter Zeitung that German credits in London were well over $500,000,000 a year.

Economic internationalism went much further. The vast domain of the British Empire produced many raw materials which

Germany wanted. German trading firms had to take permanent interests in those countries. The refining of Australian metal ores was largely done by German concerns. German companies furnished the power plants for the South African gold fields. British textile industries would never have maintained their primacy all over the world if it had not been for the close coöperation of the German dyestuff industries, which established branches in England.

There was quite an important counter-movement of this sort. Some of the British concerns controlled German textile mills. British capital was very strong in the German cigarette industry. Bills on Berlin were bought in England, partly for the settlements of eastern Europe payments, and partly for capital investments whenever the rate of interest was high.

These investments were overshadowed by the vast participation of German capital in flotations on the London Exchange. The London stock exchange had lately become the international stock exchange. The number of securities listed there was greater than anywhere else. It was well organized and honestly managed, though it gave greater chances to the gambler than its German competitor.

In Germany no issue was admitted for quotation without a detailed prospectus. The information contained in the prospectus was carefully checked by an official committee before quotations were permitted. Moreover, no shares of less than $250 could be issued. Dealing in futures was very restricted. Risky issues like gold mines or rubber shares could not be floated. People who wanted to risk their money in comparatively small sums had to do it in England. Foreign shares subscribed abroad could not be traded on the German stock exchange without paying a heavy tax. Moreover, the claims of home industries had been strong for many years. The rate of interest in Germany was higher than in England and in France. It was cheaper to borrow money in London and in Paris. The best foreign securities as well as the most risky ones were quoted there, and many a conservative German capitalist invested the bulk of his money in good foreign securities, while he gambled with the rest in gold shares. There was a time when the brokers handling South African mining shares kept a small army of traveling salesmen going all over Germany. On the other hand, first-class investments like American railroad shares were largely subscribed in London by

German capitalists. Moreover, most foreign bonds and shares quoted in Germany were listed in London and Paris as well. Very often it was more profitable to buy in London than anywhere else. In that way a large share of Germany's permanent investments, not only in British securities but also in other foreign securities, were made in London. This state of affairs was openly acknowledged in England. There was a regular influx of German brokers and financiers into the London stock exchange. They brought with them their nimbleness of wit and their power of adaptation, and they brought, too, a crowd of German customers. Patriotic Englishmen have lately denounced them as "our German exploiters," forgetting evidently that they made their money out of their German compatriots at home and spent it in England.

III NATIONALIZATION OF FINANCE NOW UNAVOIDABLE

Long before the war, a movement against the internationalization of capital had sprung up in Europe. This started in France but it found an echo in Germany and in England. Protectionists realized that the export of capital on a credit basis worked against their policy. If new countries were quickly developed by capital drawn from home, great quantities of competitive goods might be cheaply raised, cheaply transported and cheaply marketed. The development of a huge wheat-growing area in Mesopotamia might offset the high duties on wheat in Germany, and lower the price for the consumer. At the same time the outflow of capital to more productive fields abroad would raise the rate of interest at home. The margin of profits for protected interests would be decreased. These arguments were easily answered in the days before the war: as long as nations relied on foreign supplies, economic expansion by means of advances to new countries is beneficial. Foreign loans very often gave the control over foreign markets. The possession of international securities is a great asset in time of trouble as they can be liquidated abroad. Internationalization of payments reduces the cost of payments and equalizes the rate of interest all over the world. Moreover, it was thought that financial internationalism is the forerunner or a powerful ally of a permanent world peace.

This answer will not be deemed sufficient today. All the world has realized the danger of international dependence in time of war.

International communications can be cut by any power which controls the sea. Since the American government has accepted the principle that the maintenance of international trade between neutrals in time of war is not vital, provided the damage done to individuals is properly paid for afterwards, the sheet anchor of the world's international communication is gone. With the oncoming of "nationalization of business," the nationalization of finance seems unavoidable.

IV THE WAR'S EFFECT ON GERMAN FOREIGN INVESTMENTS

It is very unlikely that European countries, or even groups of countries, will become completely self supporting. However big the groups and however excellent their organization may be—they will depend upon foreign supplies. As far as Germany is concerned she will try to get them by land, which is the real meaning of the proposed plans of the Central European Customs Federation. But she will not withdraw from foreign commerce oversea. She will not rely upon them as she did before. She will use her capital for foreign investments as she has done in the past wherever it is to her interest to develop the resources of foreign countries. But foreign credits will be more exclusively extended to countries in whose coöperation full confidence can be placed.

The war no doubt will throw a very heavy burden on Germany. No one can foretell what her future productive power will be. But two features are clearly outstanding:

1. Germany has undoubtedly disposed of a considerable part of her foreign securities, but she has retained a large share of them. The property which is withheld from her citizens by the Allies was estimated at $500,000,000 before Italy and Roumania declared war on her. A large part of her neutral securities has not been sold as there were not available markets for them. All of these sums will be released when peace is made. No doubt Germany will have to re-stock her stores at that date. She may have to contract short-term foreign loans in order to prevent the efflux of gold, her untouched assets are more than sufficient for such transactions.

2. Germany will remain a creditor nation. She has contracted no foreign obligations during the war. However heavy the burden may be, her people will not be compelled to pay tribute to foreigners.

V DECLINE OF LONDON'S FINANCIAL PRESTIGE

While the relations between debtor countries and creditor countries will continue, and while Germany will partake in them, international finance, in the sense of that close coöperation of capital which existed before the war, will not revive for a long time. The London money market will not be used by borrowing nations in the future as it has been used in the past. It will not any longer be the place where the capitalist nations of the world meet to do their work in joint coöperation.

As far as settling international trade via London is concerned, some vital changes are sure to occur. The old belief that a draft on London is as good as gold has been shattered. England was forced to declare a moratorium. She was forced to do so because she was the international center of the world. As soon as the international trade machinery came to a standstill, payments to England were difficult to make, and England was not rich enough to meet all the demands on her. In other words, the banker of the world had to postpone payments because many of his clients had to do so, and because his own resources were not strong enough to carry him through. "Lombard Street," a British author wrote, "will have to modify its boast about the only free and open money market in the world."

It is quite possible that this moratorium was a wise and unavoidable measure. It is absolutely clear that it has demonstrated to the world, and especially to the neutrals, the danger of keeping their bank account with a country mixed up in all business and in all struggles of the world. However excellent service the international mechanism, especially in London, may have done, the dangers inherent in such an international financial machinery have been clearly demonstrated. In the near future people will be shy of such forms of internationalism, which no doubt do cheapen business in time of peace but lead to bankruptcy when war breaks out.

If a country could be found with all the natural and political advantages England enjoyed, she might take the place of England, if her neutrality were assured under all circumstances. But even then no country would be rich enough in her own liquid resources to pay her debts to her creditors when her own debtors failed. At the outbreak of the war the United States paid both England and

France though both failed to pay her. This country could do so because its international commitments were comparatively light.

The United States is not likely to take the place of England as a center of international finance. Commodities en route to Europe do not pass her shores and never will do so. Their economic policy, their commercial policy, their corporation and stock exchange legislation are far less stable than those of England. In that respect the advantages of a free trade country are not at the disposal of a protectionist country. But America is sure to do the financing of her own trade. As she will no longer be indebted to England, there will be no need for her to send the same amount of remittances to London, and the same will hold good of other debtor countries whose bonds England is selling to the United States. Their place in London will be taken to a certain degree by the British Dominion and Allies.

There will be no need to finance American imports via London. The demand for London drafts from America will be much smaller. And it is not very likely that the payments on foreign account for Russian and Italian product, for example, will go via London. Even if the economic schemes of the Allies are realized, Germany certainly will not finance her imports from Russia via London. As far as the British colonies are concerned, she will have to do so if she chooses to buy their goods. If the colonies refuse to do business with Germany, they will facilitate Germany's financial emancipation from London, as she can get the raw products needed from other sources. She will pay for them either directly or via New York. Countries or groups of countries will settle the payments of their exports and imports directly. They will try to oust superfluous financial intermediaries.

VI PERMANENT EFFECTS OF BRITISH POLICY

Far more important will be the effect of the war on permanent investments in foreign countries. These permanent investments may be roughly divided into two groups:

1. Establishing of commercial and industrial firms in foreign countries.

2. Participation in foreign enterprises by investments abroad in government bonds and corporation stock and bonds.

As far as those investments are concerned, the war has brought about a very great change. To begin with, a recrudescence of the

protectionist spirit is visible all over the world. There will be a cry for the creation of national industries at very great sacrifices, as the war has shown the danger of such industries under foreign domination. Countries will favor the influx of capital into such industries, as the Germans have done with nitrates and the English with dyestuffs. They will prevent the efflux of capital as long as home requirements are not fulfilled.

The investor himself will be far less eager for investments abroad than he was before. The closing of all stock exchanges all over the world has made it difficult for him to realize his foreign assets, even if they were first-class. The moratorium enacted in nearly all countries with the exception of Germany, shows the risks of buying foreign bills. Moreover, the foundation of the international financial fabric has been smashed deliberately.

All Payments to England's Enemies Forbidden

In that respect, England was the leader. As early as August 5, trading with the enemy was forbidden in England. The first proclamations which were neither clear nor stringent did not stop the payment of debts. Later on all payments to business residents in the enemies' country were forbidden. Dividends, interest, profit on securities or on participations in some business belonging to Germans and to people residing in Germany, were withheld from them during the war. They were to be paid into the hands of a custodian. This custodian was empowered to collect all revenues belonging to enemy subjects. Moreover, all enemy property, companies, corporations and private firms were handed over to a controller who became their receiver. Transfers of enemy property to neutrals were stopped.

In other words the capital of enemy subjects in the British Empire was sequestered. The revenue accruing from it was withheld from them. Their business secrets were wormed out, their books were inspected, their property was to be managed in the public interest and not in the interest of the party concerned. As the object of this legislation was to damage enemy subjects, the administration of their property was very often made as harsh as possible. Competitors of British firms were deliberately ruined, stocks and shares were sold without regard to the owners' interest, collateral securities were disposed of at a loss. Not only British

securities but neutral securities deposited in London were dealt with in that way. I know of an old lady living in Germany, whose income is derived from American securities listed in London. She does not get a cent from them. I know a small pensioner in Munich who is deprived of her pension from England. Even German citizens living in the United States cannot get their dividends from England.

Retaliation by Germany and Austria

British legislation was inaugurated on August 5, 1914. It was quickly copied by the Allies. As a matter of course, Germany and Austria retaliated. At the beginning the advantage was with England for her obligations to Germany were far larger than her own investments in that country. She wanted to cripple the enemy and did not think of future developments. She was not quite successful in many ways. She could not stop liquidation of German securities in neutral markets, but she seemed to be a gainer in the beginning. The unpaid trading debts of the central powers in England were but one million pounds. Affairs changed quickly with the entrance of Turkey into the war, a country which owes large sums to England and especially to France. Following the Allies' example she confiscated their investments and cancelled their concessions. The entrance of Portugal and Italy and Roumania has restored the balance in favor of the Allies. But the economic benefit derived from such measures must be much smaller than was originally considered. An absolutely reliable balance between the assets and the liabilities of the different nations cannot yet be struck.

The Permanent Effect on International Finance

What is far more important than figures is the deathly blow dealt to the system of international finance. Before the war, continental investors liked to spread their risks. They felt convinced that their investments were safe. It might be doubtful whether a government would go on paying interest on their debt to the enemy when war broke out. Japan has done so punctiliously to her German debtors. But private property and private obligations seemed to be quite safe. As private property cannot be confiscated even in occupied territory by a hostile army, there seemed to be no reason why the possibility of confiscation should be taken into account, where no direct military necessity was involved. England's con-

ception of international law which is based mainly on maritime law, aiming at the destruction of private property, did no doubt furnish arguments for the legality of such precedents. The acceptance of the Declaration of London seemed to show clearly that England was giving up her old ideas. It seemed to make investors quite safe. They have been grievously disappointed. Whatever conclusion lawyers may come to about the legality of such sequestration will be of great legal importance when the question of compensation is discussed. As far as the essential financial relations between nations are concerned, the legal learning exhibited during the war is of little weight.

What does matter is the experience people have gone through. They have learned that their foreign investments, whatever form they may take, are not safe in hostile though civilized countries. They have learned that neutral securities are not safe when listed in such countries or when intercepted at sea even if protected by neutral mails. They have learned that corporations or firms owned by them but domiciled in neutral countries can be boycotted without protection by friendly neutral goverments. For the most valiant protest is no protection. They will draw their conclusions from their experiences and nationalize their finance. If international law experts can show them that all of these acts were lawful, so much the worse. For that would guarantee them that such acts may be repeated without fear of punishment or hope of compensation. No country has learned sadder lessons from the war in that respect than Germany. She and her Allies will draw their own conclusions. A reconstruction of economic policy all over the world will take place, by which nations and states will be distributed in big economic groups. They will overstep their group boundaries wherever national interests are at stake for the exploitation of new countries oversea. But the old unorganized flow of capital towards the largest profits abroad, is not likely to continue. There will be a drawing apart of nations and groups in economic life and with it a considerable setback to international finance.